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An unending variety of topics

Monday, September 22, 2008

The *kula* ring

Just off the cost of New Guinea, Melanesians evolved (over thousands, and perhaps even tens of thousands, of years) a unique commercial institution known as the "kula ring" for the collectibles that circulated within it.

The unforgeably scarce kula collectibles doubled as "high power" money and mnemonic for stories and gossip. Many of the goods traded, mostly agricultural products, were available in different seasons, and so could not be traded in kind. Kula collectibles solved this double-coincidence problem as an unforgeabaly costly, wearable (for security), and circulated (literally!) money. Necklaces circulated clockwise, and armshells counter-clockwise, in a very regular pattern. By solving the double-coincidence problem an armshell or necklace would prove more valuable than its cost after only a few trades, but could circulate for decades. Gossip and stories that about prior owners of the collectibles further provided information about upstream credit and liquidity. In other Neolithic cultures collectibles, usually shells, circulated in a less regular pattern but had similar purposes and attributes.

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About Me

Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

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Posted by Nick Szabo at 5:39 PM

3 comments:

lang said...

> Necklaces circulated clockwise, and armshells counter-clockwise, in a very regular pattern.

Why is this? What was the mechanism that made them circulate in opposing directions?

1:10 PM

Nick Szabo said...

This comment has been removed by a blog administrator.

12:26 PM

Nick Szabo said...

The proximate reason was religious taboo shared by the traders. The ultimate reasons (i.e. functional reasons why the institution evolved this way) are a matter of debate, but I can think of some explanations:

(1) Collectibles often literally circulated in specific cycles that avoid sinks. This amortized the cost of the collectible across more trades. Why? The function of collectibles is to lower transaction costs such as non-coincidence of needs or events. A transaction network uses collectibles more efficiently if it increases the ratio of velocity to current value. Since velocity was very low and the

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value of transactions (trades, marriages, inheritences, etc.) could be high, this was a big problem in neolithic transaction networks. Some collectibles had a velocity of once per generation, i.e. they were just family heirlooms!

The network uses collectibles more efficiently with more members, so we'd expect the circulation to expand beyond bilateral cycles into cycles around the entire regular transaction chain. The taboo deters less globally efficient bilateral cycles from forming.

BTW, the closed-loop transaction cycle is also important to marketing digital cash or a novel currency that is expensive to redeem (left as an exercise for the student).

(2) Imagine circular island chain ABCDE, where boats can travel no farther than their neighbors and C is self-sufficient (or just very small) and doesn't want to trade goods regularly, but AB, DE, and EA trade regularly. C breaks the collectible cycle (greatly decreasing the efficiecy of collectibles for the other islands) unless it acts as a conduit. Simply taking collectibles from D and shipping them to B (and pocketing some profit of course) to complete a one-collectible cycle requires acts of faith. With two opposite circulating collectibles, C simply
engages in bilateral trades with both B and D to complete both cycles.

(3) the two opposite cycles arguably improved the function of signalling the liquidity and creditworthiness upstream and downstream in the trading network. The flow of armshells sent signals about the liquidity of the islands (and particular trading partners there) one trading step or more revoved in one direction; the flow of necklaces about liquidity and credit of islands once or more removed in the other direction.
The signals are less likely to be confused. (Janet Landa has suggested the valuables have a credit signalling function).

(4) A variation on (3); the system forces you to trade in the other direction, and sends signals about your ability to do so. Thus you gain not just direct information from direct interactions, but also information and commitment regarding trade in the other direction which cannot be directly observed.

12:43 PM

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